

OCTAGON CONSOLIDATED BERHAD (“OCTAGON” OR “THE COMPANY”)

(A) Notes to the Interim Financial Report

1. Accounting Policies

The quarterly financial statements have been prepared in accordance with the Financial Reporting Standards (formerly known as MASB Standards), FRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad. The interim financial report should be read in conjunction with the audited financial statements of Octagon and its subsidiaries (“Octagon Group” or “the Group”) for the financial year ended 31 October 2004.

The accounting policies and methods of computation adopted in the interim financial statements are consistent with those adopted in the annual audited financial statements of the Group for the financial year ended 31 October 2004.

2. Audit Report

There was no audit qualification by the auditors on the annual financial statements of the Octagon Group for the financial year ended 31 October 2004.

3. Seasonality or cyclicity of operations

The principal business of the Group is not subjected to seasonal or cyclical factors. However, the Group's turnover depends on orders placed by the Group's direct and indirect customers.

4. Nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period under review.

5. Nature and amount of changes in estimates of amount reported in prior interim periods of the current financial year, which give a material effect in the current interim period

There were no changes in the estimates of amount reported in prior quarters, which have a material effect in the financial period under review.

6. Issuance, cancellations, repurchase, resale and repayments of debts and equity securities

Other than disclosed below, there were no issuance, cancellations, repurchase, resale and repayments of debts and equities securities during the financial period under review:-

- (i) 19,000 new ordinary shares of RM1.00 each were issued pursuant to the exercise of options under the Employees' Share Option Scheme (“ESOS”) of the Company;
- (ii) the issued and paid-up share capital of the Company of RM65,963,900 comprising 65,963,900 ordinary shares of RM1.00 each were subdivided via a share split of every 1 ordinary share of RM1.00 each into 2 new ordinary shares of RM0.50 each (“Octagon Shares”) (“Share Split”); and
- (iii) a bonus issue of 32,981,950 new Octagon Shares on the basis of 1 new Octagon Shares for every 4 Octagon Shares held after the Share Split (“Bonus Issue”).

7. Dividends paid

A final dividend of 2.5 sen per ordinary share of RM1.00 each less 28% tax amounting to RM1,187,008.22 for the financial year ended 31 October 2004 was paid on 25 May 2005. An interim dividend of 10.0 sen per ordinary share of RM1.00 each less 28% tax amounting to RM4,748,680.80 for the financial year ending 31 October 2005 was paid on 28 July 2005.

8. Segmental Report

The geographical segments for the operations of the Group for the financial period ended 31 July 2005 are as follows: -

	Malaysia RM'000	Indonesia RM'000	Hong Kong RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES					
External sales	33,021	13,132	4,078	-	50,231
Inter-segment sales	13,291	-	-	(13,291)	-
Total revenue	46,312	13,132	4,078	(13,291)	50,231
RESULT					
Segment result	12,760	313	(551)	(432)	12,090
Dividend revenue					-
Interest expense					(32)
Interest revenue					295
Taxation					(3,944)
Profit after taxation					8,409
Minority Interest					371
Profit attributable to shareholders					8,780
OTHER INFORMATION					
Segment assets	205,998	13,319	7,292	(108,077)	118,532
Unallocated assets					4,873
Deferred tax asset					1
Consolidated total assets					123,406
Segment liabilities	58,523	8,418	3,974	(58,008)	12,907
Unallocated liabilities					370
Taxation					437
Deferred taxation					308
Long term liability					3,200
Minority interest					4,851
Consolidated total liabilities					22,073
Capital expenditure	8,570	6	270	-	8,846
Depreciation of fixed assets	938	201	143	-	1,282
Provision for expenses	500	-	-	-	500

Inter-segment sales comprises sales revenue which are priced at cost plus a percentage mark-up.

9. Valuation of property, plant and equipment

The Group did not carry out any valuation on its property, plant and equipment during the financial period under review.

10. Subsequent material events

Save as disclosed below, there were no material events which have occurred subsequent to the end of the financial period ended 31 July 2005 up to 15 September 2005 which have not been reflected in the financial statement for the said period:-

- (i) On 2 August 2005, Commerce International Merchant Bankers Berhad announced, on behalf of the Company, that the Share Split and Bonus Issue were completed on 2 August 2005 with the listing of and quotation for the new Octagon Shares issued pursuant to the Share Split and Bonus Issue on the Main Board of the Bursa Malaysia Securities Berhad ("Bursa Securities").
- (ii) On 23 August 2005, the Company announced that it has entered into a Supplemental Joint Venture Agreement with K.K. Incinerator Eng. & Const. (Malaysia) Sdn Bhd ("KKIECM") and Advanced Pyrotech Sdn Bhd ("APT"), a 49%-owned associated company of the Company, on 23 August 2005 to vary the following terms of the Joint Venture Agreement dated 7 April 2005 ("JVA"):
 - (a) to vary the manner in which the advance sum of RM3.8 million (equivalent to USD1 million) ("Advance") by the Company to APT is to be used. The Advance will now be used in connection with the turnkey contract, instead of being used solely to secure a letter of credit from a bank or financial institution for the turnkey contractor and/or for the purposes of redeeming the redeemable convertible preference shares pursuant to the JVA; and
 - (b) to change the period within which the conditions precedent to the JVA are to be satisfied and/or fulfilled from within 2 months from the date of the JVA to 6 months from the date of the JVA.

All other terms and conditions of the JVA remain unchanged.

11. Changes in the Composition of the Group

Other than as disclosed below, there were no changes in the composition of the Group for the current quarter under review:-

On 27 May 2005, Profound Peak Sdn Bhd, a wholly-owned subsidiary of the Company completed its acquisition of the entire issued and paid up capital of Premierpath Sdn Bhd. On the same day, Octagon Industrial Coatings Technology Sdn Bhd, a wholly-owned subsidiary of the Company, subscribed for 75,000 new ordinary shares of RM1.00 each in Advanced Coatings and Surface Technologies Sdn Bhd ("ACST") representing 30% of the enlarged issued and fully paid-up share capital of ACST for a total cash consideration of RM75,000.

On 17 June 2005, the Company subscribed for additional 2,750,000 ordinary shares of RM1.00 each in Green Energy and Technology Sdn Bhd ("GET") for a cash consideration of RM2.75 million resulting in an increase in the equity interest of the Company in GET from 55% to 64.7%.

12. Contingent liabilities or contingent assets

On 3 September 2000, a fire had occurred at part of the open store yard of Durachem Sdn Bhd ("Durachem"), a wholly-owned subsidiary of the Company, which is used to store certain raw materials. The fire had resulted in damage to the refuse chamber, the back portion of the production building for powder blending and back-up generator set. The fire had also indirectly resulted in some damage to an adjacent third party's warehouse.

On 14 March 2001, Durachem received a notice of claim amounting to RM62,065 for damage caused to the adjacent third party's warehouse. Durachem has denied the claim and has forwarded the said claim to its insurer, Mitsui Sumitomo Insurance (Malaysia) Bhd. for their further action.

On 13 March 2003, Durachem was served a Writ of Summons together with Statement of Claim dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The Plaintiffs are claiming for an amount of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgment, the costs and other relief deemed fit and proper by the Court. Further details are set out in Section (B)11 of this note.

Save as disclosed above, as at 15 September 2005, the Directors of Octagon are not aware of any contingent liabilities, which upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

(B) Additional Disclosures in Compliance with the Listing Requirements of Bursa Malaysia Securities Berhad

1. Review of Performance

During the current quarter under review, the Group registered a higher turnover of RM22.141 million as compared to RM15.399 million recorded in the 3rd Quarter of the last financial year. This is due to the increase in demand by existing customers, as well as additional sales contributed by the new subsidiary, the acquisition of which was completed on 27 May 2005.

The gross profit margin of the Group fluctuates on a monthly basis. The gross profit margin for the 3rd Quarter of the financial year ending 31 October 2005 is 39.62% as compared to 45.04% for the corresponding period in the previous financial year. The drop in the gross profit margin is mainly due to the increased cost of raw materials and higher overhead cost. Further, the gross profit margin of the new subsidiary is also lower due to its niche in the lower-end products market, thus reducing the overall gross profit margin of the Group. The Group is continuing its effort to reduce overheads cost and stringent control measures in resource planning in order to maximise profit and minimise overheads cost.

The profit before taxation margin for the 3rd Quarter of the current financial year has recorded a drop from 29.96% registered for the corresponding period in the previous financial year to 23.22%. Other than as mentioned above, this is also due to higher administration and other expenses as a result of the Group's expansion program.

2. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

During the period under review, the Group registered a turnover of RM22.141 million as compared to RM15.035 million in the preceding quarter ended 30 April 2005. The Group's turnover has increased by approximately 47.26%, mainly due to the increase in demand by existing customers as well as contribution from the new subsidiary. As a result of the above, the profit before taxation has improved approximately 33.22%, from RM3.859 million to RM5.142 million.

3. Prospects

The Malaysian economy expanded by 4.1% in the second quarter of 2005 as compared to 5.8% recorded in the first quarter of 2005. Value added in the manufacturing sector expanded, at a slower pace, by 3.2% during the second quarter as compared to 5.7% registered in the first quarter. In the export-oriented industries, output growth further moderated to 4.1% in the second quarter from 5.4% recorded in the first quarter of 2005. The gross export of consumer electrical products registered a slower growth of 5.8% compared to a growth of 9.9% in the first quarter of 2005.

Despite the above, the mid-term outlook for Malaysia remains favourable in light of the encouraging indicators emerging from the United States of America, Japan and the Euro area, and further reinforced by the expected improvement in the global electronics sector.

Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable in the current financial year.

4. Variance of Actual Profit From Forecast Profit

Not applicable.

5. Taxation

	Current Quarter	Cumulative year to date
	RM'000	RM'000
Current	1,581	3,944
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	<u>1,581</u>	<u>3,944</u>

The effective rate of taxation of the Group is higher than the statutory rate of taxation mainly due to certain expenses being disallowed for taxation purposes.

6. Profits on Sale of Investments and/or Properties

There were no sale of investments and/or properties for the current financial period ended 31 July 2005.

7. Quoted Securities

There were no purchases or disposals of quoted securities during the current financial quarter under review.

Investment in quoted shares as at 31 July 2005 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM44,000

8. Status of Corporate Proposals

8.1 Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 15 September 2005: -

- (i) On 2 February 2005, Commerce International Merchant Bankers Berhad ("CIMB") announced, on behalf of the Company, that the Company proposed to implement, inter alia, a renounceable rights issue of up to 67,960,000 warrants at an issue price of RM0.05 per warrant on the basis of 2 warrants for every 5 Octagon Shares held ("Rights Issue of Warrants").

The Rights Issue of Warrants was approved by Bank Negara Malaysia and the Securities Commission ("SC") on 17 March 2005 and 5 April 2005, respectively. The Company has applied to the SC for an extension of time up to 5 January 2006 for the completion of the Rights Issue of Warrants and approval was granted by the SC on 22 August 2005. The shareholders approved the Rights Issue of Warrants on 29 April 2005.

Bursa Securities has via its letter dated 2 August 2005 granted approval-in-principle for admission to the Official List of Bursa Securities and the listing and quotation of up to 67,960,000 warrants to be issued pursuant to the Rights Issue of Warrants and listing of up to 67,960,000 new Octagon Shares to be issued pursuant to the exercise of the warrants. The exercise price of the warrants has been fixed at RM1.28 and the Abridged Prospectus together with the Notice of Provisional Allotment and Rights Subscription Forms were despatched to the shareholders on 15 September 2005.

- (ii) On 8 June 2005, the Company announced that it proposes to seek its shareholders approval for the purchase of up to 10% of its issued and paid-up share capital ("Proposed Share Buy-Back"). The Proposed Share Buy-Back was approved by the shareholders of the Company on 19 September 2005.
- (iii) On 8 July 2005, CIMB announced, on behalf of the Company, that the Company proposes to issue up to RM130 million nominal value commercial papers ("CPs") and/or medium-term notes ("MTNs") programme under the Islamic financing principles of Murabahah and Ijarah ("Proposed CP/MTN Programme"). The Proposed CP/MTN Programme is pending the approval of the SC.

8.2 Utilisation of proceeds

The status of utilisation of the proceeds raised from the rights issue and public issue pursuant to the listing of the Company on the Second Board of the Bursa Securities on 8 November 2000 amounting to RM24.490 million is as follows: -

	As approved by the Securities Commission RM'000	(a) ®Revision made by Octagon RM'000	(b) Amount utilized as at 15 September 2005 RM'000	(c) = (a) – (b) Amount unutilized as at 15 September 2005 RM'000
Part finance the purchase of Industrial land	3,310	3,310	3,310	-
Construction of office, warehouse and factory buildings	8,000	6,500	5,616	884
Purchase of plant and machinery and testing equipment and apparatus and upgrading of the research and development facilities	2,000	4,000	2,318	1,682
Research and development expenditure	2,000	-	-	-
Acquisition of Profound Peak Sdn Bhd	599	599	599	-
Repayment of bank borrowings	2,384	2,384	2,384	-
Working capital	4,197	5,789	5,789	-
Estimated listing expenses	2,000	1,908	1,908	-
	24,490	24,490	21,924	2,566

Note: -

- ® The revision to the utilization of proceeds and the revision to the manner of utilization of proceeds were announced to the Bursa Securities on 21 May 2001, 28 September 2001, 13 August 2002 and 31 December 2004 respectively.

9. Group Borrowings and Debt Securities

All of the Group banking facilities which include bank overdraft and revolving loan facilities granted by financial institutions to the subsidiaries of the Company are secured by way of corporate guarantee from the Company of up to RM18.3 million.

Total Group borrowings as at 31 July 2005 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	155
Long term borrowings	
Hire purchase creditors	370
Total	<u>525</u>

All of the Group borrowings are denominated in Ringgit Malaysia.

10. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 15 September 2005 being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

11. Material Litigation

On 13 March 2003, Durachem was served with Writ of Summons together with Statement of Claims dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd ("Kellogg's") and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The solicitors of Durachem Sdn Bhd have filed a Statement of Defence with the High Court of Malaysia in Shah Alam on 23 April 2004. The case has been fixed for mention on 17 January 2006.

The Plaintiffs are claiming for a total sum of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgement, the costs and any other relief deemed fit and proper by the Court. The solicitors of Durachem are of the view that even if Durachem is held liable for the fire, the quantum claimed by the Plaintiff may be reduced. Durachem has a public liability insurance amounting to RM1 million at the time of the fire. Hence, in the event that the claim is successful, the expected losses arising from the suit will be the sum claimed (net of the public liability insurance), interest, legal fees and other relief, the amount of which can only be determined upon award of judgement. Based on the above, the Directors of Octagon are of the opinion that the aforesaid litigation will not have any material effects on the financial position and operation of the Group.

Save as disclosed above, as at 15 September 2005, neither the Company nor any of its subsidiaries is engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Directors of the Company do not have any knowledge of any proceedings pending or threatened against the Company and/or any of its subsidiaries or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of the Company and its subsidiaries.

12. Dividends

No dividend has been proposed for the current financial period under review.

13. Earnings Per Share

	Quarter ended 31 July		Current year to date	Preceding year corresponding period
	2005	2004	31 July 2005	31 July 2004
Profit after taxation and minority interest (RM'000)	3,658	3,502	8,780	8,419
Weighted average number of ordinary shares in issue* ('000)	164,888	155,036	164,803	152,159
Adjustment in relation to the ESOS ('000)	116	4,339	973	4,501
Adjusted weighted average number of ordinary shares in issue ('000)	165,004	159,375	165,776	156,660
Basic earnings per share (sen)	2.22	2.26	5.33	5.53
Diluted earnings per share (sen)	2.22	2.20	5.30	5.37

* The weighted average number of shares in issue has been adjusted for the Share Split and Bonus Issue.